

Solid performance; healthy growth prospects...

KSB Ltd reported an outperformance across all operational parameters in Q1CY19. Standalone revenue, EBITDA and PAT recorded growth of 36.1%, 58.2% and 40.2%, respectively, YoY. Topline growth was driven partly by higher order execution from the oil & gas and exports segments. Standalone revenues for Q1CY19 were at ₹ 289.3 crore wherein the pumps segment contributed ₹ 243.1 crore (up 40.7% YoY) while valves contributed ₹ 46.2 crore (up 17.2%). EBITDA margins were at 11.0%, up 150 bps YoY due to benefits of operating leverage slightly offset by elevated input costs. Consequent standalone PAT was at ₹ 15.7 crore.

Strong demand, capacity addition to drive growth ahead

Engineered (Industrials), Standard (agriculture, building solutions) and exports segments contributed ~45%, 27% and 14%, respectively, to the topline in CY18. In the industrials space, the company has seen traction in the oil & gas sector wherein KSB is set to benefit from upgradation capex by refineries to comply with fuel emission control norms. In addition, exports and after-market segments are expected to aid growth in CY19E. KSB has seen robust order execution in Q1CY19. Consequently, the current order backlog is at ~₹ 700 crore (excluding NPCIL order win of ₹ 420 crore), providing six to seven months of revenue visibility. The company also continues to explore opportunities in the thermal power space where it has won two orders to supply pumps related to FGD installations. On the agriculture front, KSB, with quality product profile and strong brand recall is expected to benefit from increase in farm income and the government's thrust on increasing irrigation penetration domestically. KSB's manufacturing facilities operate at ~90% utilisation. The company continues to make capacity addition like phased expansion of Shirwal plant in Pune to cater to incremental demand in future.

Impact on margin due to competition, cost pressure stays key

Competitive intensity for players like KSB has been on the rise. In addition, elevated cost pressures and customer's reluctance to share the burden could result in a cap on wide margin expansion despite operating leverage benefits. Thus, this becomes a key variable to track for the company. We revise our EBITDA margins slightly upwards at 12.6% for CY19E from 12.1% earlier. Margin accretive product profile mix and controlled operating expenses are likely to boost margins to 13.1% in CY20E.

Valuation & Outlook

KSB has a debt free balance sheet with surplus cash of ~₹ 139 crore. Over CY18-20E, we expect KSB to clock sales, EBITDA & PAT CAGR of 13.5%, 19.9% & 26.8%, respectively. Core RoICs are also expected to improve to 17.2% by CY20E vs. 13.6% in CY18. We value KSB at ₹ 810 i.e. 24.5x P/E on CY20E EPS of ₹ 33.1 and retain our **BUY** rating on the stock.



Particulars

Particular	Amount
Market Capitalization	₹ 2339 crore
Total Debt (CY18)	₹ 43.4 crore
Cash and Inv. (CY18)	₹ 138.8 crore
EV	₹ 2243.8 crore
52 week H/L (₹)	908 / 601
Equity capital	₹ 34.8 crore
Face value	₹ 10

Key Highlights

- Expect CY19E revenue growth at ~15% YoY
- Capacity utilisation across its plants at ~90%
- Strong Q1CY19 order execution performance. The company's order book backlog is at ~₹ 700 crore i.e. providing six to seven months of revenue visibility
- Maintain BUY rating on the stock with a target price of ₹ 810

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Key Financial Summary

	CY16	CY17	CY18	CY19E	CY20E	CAGR (CY18-20E)
Revenue	827.9	944.3	1,093.1	1,261.4	1,408.8	13.5%
EBITDA	99.1	107.5	128.4	158.7	184.7	19.9%
EBITDA margin (%)	12.0	11.4	11.7	12.6	13.1	
Net Profit	65.3	70.9	71.6	98.1	115.2	26.8%
EPS (₹)	18.8	20.4	20.6	28.2	33.1	
P/E (x)	35.8	33.0	32.7	23.9	20.3	
EV/EBITDA (x)	21.6	21.0	17.5	14.1	12.2	
RoCE (%)	10.4	10.6	11.1	13.5	14.9	
RoE (%)	9.9	10.0	9.4	11.8	12.5	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

Standalone Numbers	Q1CY19	Q1CY19E	Q1CY18	YoY (%)	Q4CY18	QoQ (%)	Comments
Sales	289.3	228.6	212.5	36.1	346.6	-16.5	Topline beat our estimates mainly led by increased execution in oil & gas, exports and after market segment
Other Operating Income	0.0	0.0	0.0		0.0		
Total Operating Income	289.3	228.6	212.5	36.1	346.6	-16.5	
Raw Material Expenses	155.2	110.9	97.5	59.2	193.9	-20.0	Increase in metal prices weighed on gross margins
Employee Cost	41.7	40.0	35.8	16.5	40.0	4.3	
Other operating expense	60.6	56.0	59.1	2.5	64.8	-6.5	
Total Expenditure	257.5	206.8	192.4	33.8	298.7	-13.8	
EBITDA	31.8	21.7	20.1	58.2	47.9	-33.6	EBITDA margins were maintained at a healthy run rate of 11.0%
EBITDA Margin (%)	11.0	9.5	9.5	153 bps	13.8	-283 bps	
Depreciation	10.2	10.7	9.7	5.2	10.4	-1.9	Depreciation came in on expected lines
Interest	0.9	0.8	0.8	12.5	1.4	-35.7	
Non Operating Expenses							
Other Income	3.6	7.4	7.7	-53.2	5.7	-36.8	
PBT	24.3	17.6	17.3	40.5	41.8	-41.9	
Taxes	8.6	6.0	6.1	41.0	16.5	-47.9	
PAT	15.7	11.6	11.2	40.2	25.3	-37.9	Bottomline grew at a robust pace of 40.2% aided by enhanced profitability

Key Metrics

Pumps Sales (₹ crore)	243	183	173	40.7	287	-15.1	Pump sales came in above our estimates
Valves Sales (₹ crore)	46	46	40	17.2	60	-23.1	Valves segment came in per expectations

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Consolidated	CY19E			CY20E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenues	1,203.0	1,261.4	4.9	1,299.2	1,408.8	8.4	Topline growth expected at mid-double digits
EBITDA	146.2	158.7	8.6	160.0	184.7	15.5	
EBITDA Margin (%)	12.2	12.6	43 bps	12.3	13.1	80 bps	Slight improvement in operating margins
PAT	88.3	98.1	11.1	99.1	115.2	16.2	PAT revised upward tracking margins
EPS (₹)	25.4	28.2	11.1	28.5	33.1	16.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Exhibit 3: Assumptions										
	Current							Earlier		
	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E	CY19E	CY20E	Comments
Pump Sales	664.1	673.7	684.1	788.0	915.4	1,061.9	1,189.3	1,006.9	1,087.5	Revise our pump sales estimates higher primarily tracking Q1CY19 momentum. We expect pump sales to grow at a CAGR of 14.0% in CY18-20E
Valve Sales	128.4	138.2	132.7	157.8	178.2	199.6	219.5	196.0	211.7	Largely maintain sales estimates at the valves division. We expect valves sales to grow at a CAGR of 11.0% in CY18-20E
PAT, MIL Control Valves	6.6	4.6	4.9	5.2	4.3	4.5	4.8	4.5	4.7	Revised estimates slightly upward at MIL Control Valves

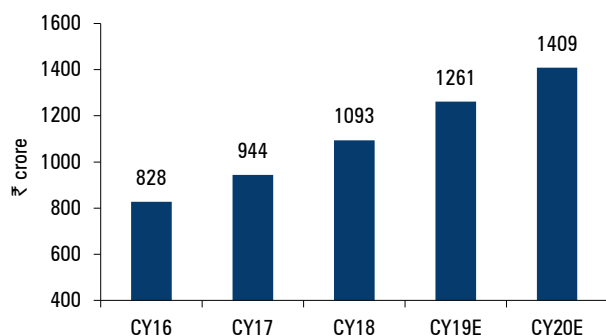
Source: Company, ICICI Direct Research

Annual general meeting key highlights

- CY19E revenue growth is expected at ~15%. Oil & gas, exports and after-market segment have shown promise and are expected to perform well over the near term
- KSB's plants are operating at almost optimum utilisation levels. The current capacity utilisation across its plants is at ~90%
- The company had set up a new manufacturing base and an energy pumps division based out of Shirwal, Pune. They continue to build capacities in that plant. Phase 2 of expansion is in process. Incremental fresh capacities added here are expected to aid the company's near term growth
- Working capital cycle may witness some pressure. Over the next two years, expect working capital cycle to remain at 25-30% of sales
- Post a strong Q1CY19 order execution performance, the company's order book backlog was at ~₹ 700 crore i.e. six to seven months of revenue visibility

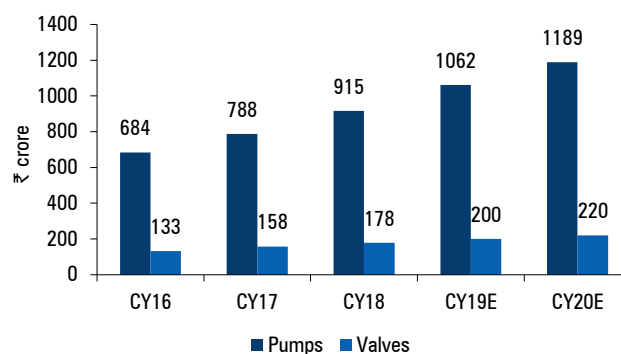
Financial Story in Charts

Exhibit 4: Revenue trend



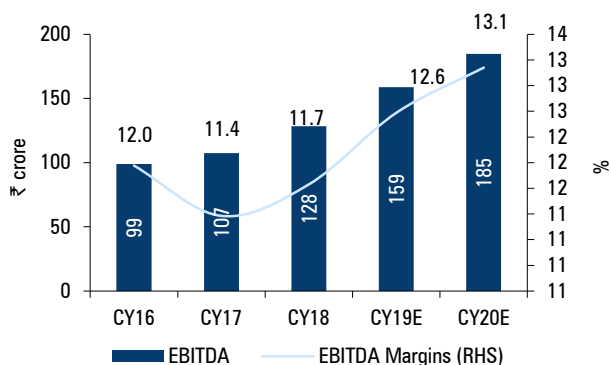
Source: Company, ICICI Direct Research

Exhibit 5: Revenue break-up (pumps vs. valves)



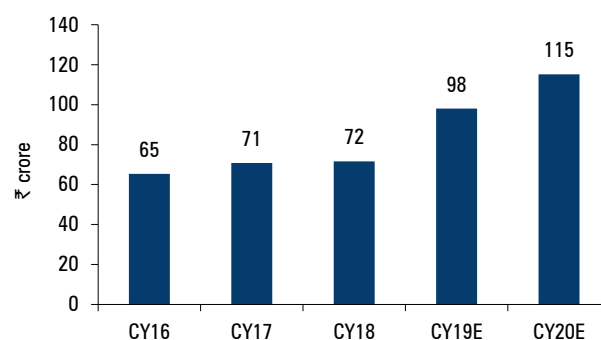
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



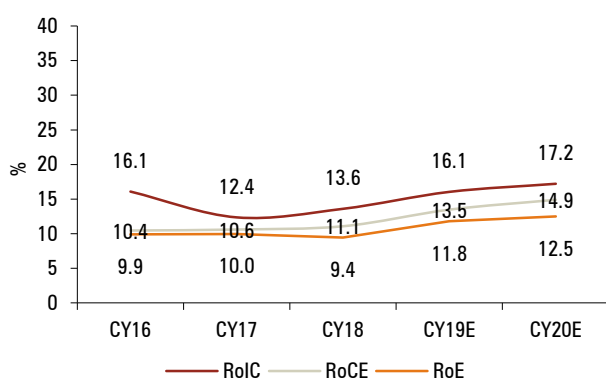
Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



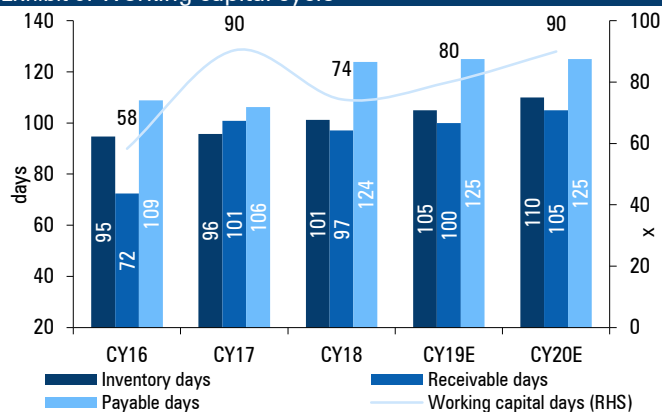
Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 9: Working capital cycle



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation history vs. consensus


Source: Company, ICICI Direct Research

Exhibit 11: Top 10 shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Position Change (m)
1	KSB AG, Group.	31-Dec-18	40.5	14.1	0.0
2	Industrial and Prudential Investment Co Ltd	31-Dec-18	20.5	7.1	0.0
3	Reliance Nippon Life Asset Management Limited	31-Dec-18	6.9	2.4	0.0
4	Paharpur Cooling Towers, Ltd.	31-Dec-18	4.2	1.5	0.0
5	Bajaj Allianz Life Insurance Company Limited	31-Dec-18	3.3	1.1	0.1
6	Thyssenkrupp AG	31-Dec-18	3.1	1.1	0.0
7	PineBridge India Private Limited	31-Dec-18	2.8	1.0	0.0
8	Sundaram Asset Management Company Limited	31-Mar-19	2.6	0.9	0.0
9	Old Bridge Capital Management Pvt Ltd	31-Dec-18	1.2	0.4	0.0
10	Canara Robeco Asset Management Company Ltd.	31-Mar-19	0.3	0.1	0.1

Source: Company, ICICI Direct Research

Exhibit 12: Recent activity

Buys			Sells		
Investor Name	Value (US\$ Million)	Shares (m)	Investor Name	Value (US\$ Million)	Shares (m)
Bajaj Allianz Life Insurance Company Limited	1.2	0.1	Reliance Nippon Life Asset Management Limi	-0.4M	-0.0M
Canara Robeco Asset Management Company Ltd.	0.9	0.1			
Sundaram Asset Management Company Limited	0.0	0.0			
Taurus Asset Management Co. Ltd.	0.0	0.0			

Source: Company, ICICI Direct Research

Exhibit 13: Shareholding pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	66.4	66.4	66.4	66.4	66.5
FII	3.5	3.5	3.5	3.5	3.5
DII	15.7	13.5	12.5	13.8	13.7
Others	14.4	16.6	17.6	16.3	16.4

Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 14: Profit and loss statement (₹ Crore)

(Year-end March)	CY17	CY18	CY19E	CY20E
Net Sales	944.3	1093.1	1261.4	1408.8
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	944.3	1093.1	1261.4	1408.8
Growth (%)	14.1	15.8	15.4	11.7
Raw Material Expenses	467.2	565.1	670.7	732.6
Employee Expenses	144.6	154.0	165.3	179.0
Other Operating Expense	225.1	245.6	266.8	312.5
Total Operating Expenditure	836.9	964.7	1,102.7	1,224.1
EBITDA	107.5	128.4	158.7	184.7
Growth (%)	8.5	19.5	23.6	16.4
Depreciation	30.9	39.7	41.6	41.8
Interest	3.7	3.7	3.2	2.6
Other Income	29.8	20.0	28.5	26.9
PBT	102.7	105.0	142.5	167.2
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	37.1	37.7	48.9	56.9
PAT	65.7	67.3	93.5	110.4
Profit from Associates	5.2	4.3	4.5	4.8
Reported Net Profit	70.9	71.6	98.1	115.2
Growth (%)	8.8	2.5	39.0	18.0
EPS (₹)	20.4	20.6	28.2	33.1

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet

(Year-end March)	CY17	CY18	CY19E	CY20E
Liabilities				
Equity Capital	34.8	34.8	34.8	34.8
Reserve and Surplus	675.6	723.0	795.7	886.6
Total Shareholders funds	710.4	757.8	830.5	921.4
Total Debt	12.6	43.4	38.4	36.4
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	723.0	801.2	868.9	957.8
Assets				
Gross Block	611.1	657.4	736.5	791.5
Less: Acc Depreciation	302.9	336.3	377.9	419.7
Net Block	308.2	321.1	358.6	371.8
Capital WIP	4.1	4.1	0.0	0.0
Total Fixed Assets	312.3	325.2	358.6	371.8
Liquid Investments	0.0	0.0	0.0	0.0
Other Investments	57.8	59.8	59.8	59.8
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Inventory	247.6	303.0	362.9	424.6
Debtors	260.9	290.7	345.6	405.3
Loans and Advances	77.1	77.1	63.1	70.4
Other Current Assets	20.5	55.4	75.1	95.4
Cash	91.3	138.8	132.9	122.1
Total Current Assets	697.4	865.0	979.5	1,117.9
Creditors	274.8	377.6	432.0	482.5
Provisions	78.1	77.8	103.7	115.8
Current Liabilities & Prov	352.8	455.4	535.7	598.3
Net Current Assets	344.5	409.6	443.9	519.6
Others Assets	8.4	6.6	6.6	6.6
Application of Funds	723.0	801.2	868.9	957.8

Source: Company, ICICI Direct Research

Exhibit 15: Cash Flow Statement (₹ Crore)

(Year-end March)	CY17	CY18	CY19E	CY20E
Profit after Tax	70.9	71.6	98.1	115.2
Add: Depreciation	30.9	39.7	41.6	41.8
(Inc)/dec in Current Assets	-125.4	-120.1	-120.5	-149.1
Inc/(dec) in CL and Provisions	32.2	102.6	80.3	62.6
Others	3.7	3.7	3.2	2.6
CF from Operations	12.3	97.5	102.6	73.0
(Inc)/dec in Investments	-3.7	-2.0	0.0	0.0
(Inc)/dec in Fixed Assets	-114.5	-46.1	-75.0	-55.0
Others	7.3	1.8	0.0	0.0
CF from Investing	-110.8	-46.4	-75.0	-55.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	5.6	30.8	-5.0	-2.0
Dividend paid & dividend tax	-25.1	-25.1	-29.2	-29.2
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	22.9	-9.3	0.7	2.4
CF from Financing	3.5	-3.6	-33.6	-28.8
Net Cash flow	-95.1	47.5	-5.9	-10.8
Opening Cash	186.4	91.3	138.8	132.9
Closing Cash	91.3	138.8	132.9	122.1

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios

(Year-end March)	CY17	CY18	CY19E	CY20E
Per share data (₹)				
EPS	20.4	20.6	28.2	33.1
Cash EPS	29.2	32.0	40.1	45.1
BV	204.1	217.7	238.6	264.7
DPS	6.0	6.0	7.0	7.0
Cash Per Share (Incl Invest)	26.2	39.9	38.2	35.1
Operating Ratios (%)				
EBITDA Margin	11.4	11.7	12.6	13.1
PBT / Total Op. income	10.9	9.6	11.3	11.9
PAT Margin	7.5	6.6	7.8	8.2
Inventory days	95.7	101.2	105.0	110.0
Debtor days	100.8	97.1	100.0	105.0
Creditor days	106.2	126.1	125.0	125.0
Return Ratios (%)				
RoE	10.0	9.4	11.8	12.5
RoCE	10.6	11.1	13.5	14.9
RoIC	12.4	13.6	16.1	17.2
Valuation Ratios (x)				
P/E	33.0	32.7	23.9	20.3
EV / EBITDA	21.0	17.5	14.1	12.2
EV / Net Sales	2.4	2.1	1.8	1.6
Market Cap / Sales	2.5	2.1	1.9	1.7
Price to Book Value	3.3	3.1	2.8	2.5
Solvency Ratios				
Debt/EBITDA	0.1	0.3	0.2	0.2
Debt / Equity	0.0	0.1	0.0	0.0
Current Ratio	1.7	1.6	1.6	1.7
Quick Ratio	1.0	0.9	0.9	1.0

Source: Company, ICICI Direct Research

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Reduce : -5% to -15%;

Sell : < -15%



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